First California Financial Group, Inc.
Form S-1/A
December 08, 2009

Table of Contents

As filed with the Securities and Exchange Commission on December 8, 2009

Registration No. 333-160816

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

FIRST CALIFORNIA FINANCIAL GROUP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**6022**	**38-3737811**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

3027 Townsgate Road, Suite 300

Westlake Village, California 91361

(805) 322-9655

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Romolo Santarosa

Chief Financial Officer

First California Financial Group, Inc.

3027 Townsgate Road, Suite 300

Westlake Village, California 91361

(805) 322-9655

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Gregg A. Noel, Esq.	**Patrick S. Brown, Esq.**
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Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

SUBJECT TO COMPLETION, DATED DECEMBER 8, 2009

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

7,500,000 Shares

Common Stock

We are offering 7,500,000 shares of our common stock, par value $0.01 per share. Our common stock is traded on the NASDAQ Global Market under the symbol FCAL. On December 4, 2009, the last reported sale price of our common stock on the NASDAQ Global Market was $3.58 per share.

These shares of common stock are not savings accounts, deposits, or other obligations of our bank subsidiary or any of our non-bank subsidiaries and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

Investing in our common stock involves risks. See Risk Factors beginning on page 5 to read about factors you should consider before buying our common stock.

Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to First California Financial Group, Inc. (before expenses)	$	$

Keefe, Bruyette & Woods also may purchase up to an additional 1,125,000 shares of our common stock within 30 days of the date of this prospectus to cover over-allotments, if any.

Keefe, Bruyette & Woods expects to deliver the common stock in book-entry form only, through the facilities of The Depository Trust Company, against payment on or about , 2009.

Keefe, Bruyette & Woods

The date of this prospectus is , 2009.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements about the financial condition, results of operations and business of the Company. These statements may include statements regarding the projected performance of the Company for the period following the completion of the offering. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, intends, will, pla similar words or expressions. These forward-looking statements involve substantial risks and uncertainties. Some of the factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, but are not limited to, the following possibilities:

revenues are lower than expected;

credit quality deterioration which could cause an increase in the provision for credit losses;

competitive pressure among depository institutions increases significantly;

changes in consumer spending, borrowings and savings habits;

our ability to successfully integrate acquired entities or to achieve expected synergies and operating efficiencies within expected time-frames or at all;

technological changes;

the cost of additional capital is more than expected;

a change in the interest rate environment reduces interest margins;

asset/liability repricing risks and liquidity risks;

general economic conditions, particularly those affecting real estate values, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;

a slowdown in construction activity;

the effects of and changes in monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve, or the Federal Reserve Board or FRB;

recent volatility in the credit or equity markets and its effect on the general economy;

demand for the products or services of First California and the Bank, as well as their ability to attract and retain qualified people;

the costs and effects of legal, accounting and regulatory developments; and

regulatory approvals for acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such statements. You are cautioned not to place undue reliance on such statements, which speak only as of the date of this prospectus. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Actual results of the Company may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Accordingly, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

We urge investors to review carefully the section of this prospectus entitled Risk Factors in evaluating the forward-looking statements contained in this prospectus. Unless required by law, we do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

Table of Contents

ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus. We have not, and the underwriter has not, authorized any person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriter is not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date of this prospectus, unless the information specifically indicates that another date applies. First California Financial Group, Inc. s business, financial condition, results of operations and prospects may have changed since such dates.

Unless otherwise indicated or unless the context requires otherwise, all references in this prospectus to First California Financial Group, Inc., First California, the Company, we, us, our, or similar references, mean First California Financial Group, Inc. References to First California or the Bank mean our wholly owned banking subsidiary. References to the mergers mean the merger of National Mercantile Bancorp with and into First California and the merger of FCB Bancorp with and into First California, collectively.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The internet address of the SEC s website is www.sec.gov. Such reports and other information concerning First California can also be inspected at the offices of First California at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361 and can also be retrieved by accessing our website (www.fcalgroup.com). Information on our website is not part of this prospectus.

This prospectus, which is a part of a registration statement on Form S-1 that we have filed with the SEC under the Securities Act of 1933, as amended, or the Securities Act, omits certain information set forth in the registration statement. Accordingly, for further information, you should refer to the registration statement and its exhibits on file with the SEC. Furthermore, statements contained in this prospectus concerning any document filed as an exhibit are not necessarily complete and, in each instance, we refer you to the copy of such document filed as an exhibit to the registration statement.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus and may not contain all the information that you need to consider in making your investment decision. You should carefully read this entire prospectus, as well as the information to which we refer you, before deciding whether to invest in the common stock. You should pay special attention to the Risk Factors section of this prospectus to determine whether an investment in the common stock is appropriate for you.

About First California Financial Group, Inc.

First California is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. First California s primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank, as well as to consider from time to time other legally available investment opportunities.

First California was incorporated under the laws of the State of Delaware on June 7, 2006. The Company was formed as a wholly owned subsidiary of National Mercantile Bancorp, a California corporation, or National Mercantile, for the purposes of facilitating the merger of National Mercantile and FCB Bancorp, a California corporation, or FCB. On March 12, 2007, National Mercantile merged with and into First California, and immediately thereafter, FCB merged with and into First California. As a result of the mergers, the separate corporate existence of National Mercantile and FCB ceased, and First California succeeded, and assumed all the rights and obligations of, National Mercantile, whose principal assets were the capital stock of two bank subsidiaries, Mercantile National Bank, or Mercantile, and South Bay Bank, N.A., or South Bay, and the rights and obligations of FCB, whose principal assets were the capital stock of First California Bank. On June 18, 2007, First California integrated its bank subsidiaries into First California Bank.

First California Bank is a full-service commercial bank headquartered in Westlake Village, California. First California Bank is chartered under the laws of the State of California and is subject to supervision by the California Commissioner of Financial Institutions. The Federal Deposit Insurance Corporation, or FDIC, insures its deposits up to the maximum legal limit.

At September 30, 2009, we had total assets of $1.5 billion, gross loans of $940.9 million, deposits of $1.1 billion, and shareholders equity of $161.1 million.

Our common stock is traded on the NASDAQ Global Market under the symbol FCAL. Our principal executive offices are located at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361. Our telephone number is (805) 322-9655.

Risk Factors

An investment in our common stock involves certain risks. You should carefully consider the risks described under Risk Factors beginning on page 5 of this prospectus, as well as other information included in this prospectus, including our consolidated financial statements and the notes thereto, before making an investment decision.

Table of Contents

The Offering

The following summary of the offering contains basic information about the offering and the common stock and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the common stock, please refer to the section of this prospectus entitled Description of Capital Stock.

Issuer	First California Financial Group, Inc.
Common stock offered	7,500,000 shares of common stock, par value $0.01 per share.
Over-allotment option	We have granted the underwriter an option to purchase up to an additional 1,125,000 shares of common stock within 30 days of the date of this prospectus in order to cover over-allotments, if any.
Common stock outstanding after this offering	19,127,008 shares of common stock.(1)(2)
Use of proceeds	We intend to use the net proceeds of this offering for general corporate purposes, including funding working capital requirements, supporting growth of First California s banking business from internal growth and from possible acquisitions, and regulatory capital needs related to any such growth and acquisitions. We also may contribute some portion of the net proceeds to the capital of the Bank, which would use such amount for similar general corporate purposes.
Market and trading symbol for the common stock	Our common stock is listed and traded on the NASDAQ Global Market under the symbol FCAL.

(1) The number of shares of common stock outstanding immediately after the closing of this offering is based on 11,627,008 shares of common stock outstanding as of December 4, 2009.

(2) Unless otherwise indicated, the number of shares of common stock presented in this prospectus excludes:

1,125,000 shares of common stock issuable pursuant to the exercise of the underwriter s over-allotment option;

1,299,948 shares of common stock issuable under our stock compensation plans;

297,965 shares of common stock issuable upon the conversion of the Series A Preferred Stock; and

599,042 shares of common stock issuable upon the exercise of the warrant held by the U.S. Treasury. If this offering and/or any other qualified equity offerings that we may make prior to December 31, 2009 result in aggregate gross proceeds of at least $25 million, the number of shares of common stock underlying the warrant then held by the U.S. Treasury will be reduced by 50% to 299,521 shares.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth our consolidated statement of operations data for the nine months ended September 30, 2009 and 2008 and for the years ended December 31, 2008 and 2007 and our consolidated balance sheet and other data as of September 30, 2009 and as of December 31, 2008 and 2007.

The summary consolidated statement of operations data for the years ended December 31, 2008 and 2007, and the summary consolidated balance sheet data as of December 31, 2008 and 2007, have been derived from our audited consolidated financial statements included elsewhere in this prospectus.

The summary consolidated statement of operations data for the nine months ended September 30, 2009 and 2008, and the summary consolidated balance sheet data as of September 30, 2009, have been derived from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. In the opinion of management, the unaudited condensed consolidated financial information for the interim periods presented include all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the information set forth therein. Historical results are not necessarily indicative of future results and the interim results are not necessarily indicative of our expected results for the full fiscal year.

You should read the following summary financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the related notes for the fiscal year ended December 31, 2008 and for the fiscal quarter ended September 30, 2009 included elsewhere in this prospectus.

	For the Nine Months Ended September 30, 2009	2008	For the Year Ended December 31, 2008	2007
	(Unaudited)			
	(Amounts and numbers in thousands except share and per share amounts)			
Statement of Operations Data:				
Interest Income	$ 49,359	$ 48,236	$ 63,235	$ 65,750
Interest Expense	15,396	17,290	22,453	25,506
Net Interest Income	33,963	30,946	40,782	40,244
Provision for Loan Losses	10,296	950	1,150	
Non-interest Income	7,585	3,989	5,381	8,047
Non-interest Expenses	34,947	25,409	35,105	37,045
Income (Loss) Before Provision for Income Taxes	(3,695)	8,576	9,908	11,246
Provision (Benefit) for Income Taxes	(1,898)	3,342	3,542	4,158
Net Income (Loss)	$ (1,797)	$ 5,234	$ 6,366	$ 7,088
Less Preferred Stock Dividend Declared	(819)			
Net Income (Loss) Available to Common Shareholders	$ (2,616)	$ 5,234	$ 6,366	$ 7,088
Basic Earnings (Loss) Per Common Share	$ (0.23)	$ 0.46	$ 0.56	$ 0.68
Diluted Earnings (Loss) Per Common Share	$ (0.23)	$ 0.45	$ 0.54	$ 0.66
Weighted Average Common Shares				
Basic	11,597,632	11,478,124	11,457,231	10,467,619
Diluted	11,597,632	11,754,050	11,844,049	10,731,694

3

Table of Contents

	As of September 30, 2009 (Unaudited)	As of December 31, 2008	2007
	(Amounts and numbers in thousands except ratios)		
Balance Sheet Data:			
Total Assets	$ 1,469,628	$ 1,178,045	$ 1,108,842
Securities Available-for-Sale, at Fair Value	302,378	202,462	231,095
Loans Held-for-Sale		31,401	11,454
Loans, Net	928,714	780,373	738,351
Total Deposits	1,125,031	817,595	761,080
Federal Home Loan Bank Advances	104,000	122,000	123,901
Junior Subordinated Debentures	26,740	26,701	26,648
Total Shareholders Equity	161,058	158,923	136,867
Equity-to-Assets Ratio(1)	10.96%	13.49%	12.34%
Financial Performance:			
Net Income (Loss) to Beginning Equity	(1.13)%	4.65%	15.73%
Net Income (Loss) to Average Equity (ROAE)	(1.50)%	4.59%	6.98%
Net Income (Loss) to Average Assets (ROAA)	(0.17)%	0.56%	0.75%
Net Interest Margin (TE)(2)	3.60%	4.08%	4.64%
Efficiency Ratio(3)	90.60%	73.45%	63.18%
Credit Quality:			
Allowance for Loan Losses	$ 12,137	$ 8,048	$ 7,828
Allowance/Total Loans	1.29%	1.02%	1.05%
Total Non-Accrual Loans	$ 39,330	$ 8,475	$ 5,720
Non-Accrual Loans/Average Loans	4.31%	1.08%	0.84%
Net Charge-offs	$ 6,207	$ 930	$ 466
Net Charge-offs/Average Loans	0.91%	0.12%	0.07%
Regulatory Capital Ratios			
For the Company:			
Total Capital to Risk Weighted Assets	12.47%	16.62%	13.35%
Tier 1 Capital to Risk Weighted Assets	11.34%	15.70%	12.43%
Tier 1 Capital to Average Assets	8.81%	12.77%	10.42%
For the Bank:			
Total Capital to Risk Weighted Assets	11.62%	12.27%	11.98%
Tier 1 Capital to Risk Weighted Assets	10.48%	11.35%	11.05%
Tier 1 Capital to Average Assets	8.10%	9.26%	9.24%

(1) Total shareholders equity divided by total assets.

(2) Net interest income (tax equivalent) divided by total average earning assets.

(3) Non-interest expense, excluding amortization of intangibles, divided by the sum of net interest income and non-interest income (excluding gains or losses from securities transactions).

Table of Contents

RISK FACTORS

An investment in our common stock involves certain risks. Before making an investment decision, you should read carefully and consider the risk factors below relating to this offering. You should also refer to other information contained in this prospectus, including our consolidated financial statements and the related notes. Additional risks and uncertainties not presently known to us at this time or that we currently deem immaterial may also materially and adversely affect our business and operations.

Risks Related to Recent Economic Conditions and Governmental Response Efforts

Our business has been and may continue to be adversely affected by current conditions in the financial markets and economic conditions generally.

The global, U.S. and California economies are experiencing significantly reduced business activity and consumer spending as a result of, among other factors, disruptions in the capital and credit markets during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse effects on our business:

- a decrease in the demand for loans or other products and services offered by us;
- a decrease in the value of our loans or other assets secured by consumer or commercial real estate;
- a decrease to deposit balances due to overall reductions in the accounts of customers;
- an impairment of certain intangible assets or investment securities;
- a decreased ability to raise additional capital on terms acceptable to us or at all; or
- an increase in the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs and provision for credit losses, which would reduce our earnings.

Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

Recent and future legislation and regulatory initiatives to address current market and economic conditions may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy.

Recent and future legislative and regulatory initiatives to address current market and economic conditions, such as the Emergency Economic Stabilization Act of 2008, or EESA, or the American Recovery and Reinvestment Act of 2009, or ARRA, may not achieve their intended objectives, including stabilizing the U.S. banking system or reviving the overall economy. EESA was enacted in October 2008 to restore confidence and stabilize the volatility in the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The U.S. Treasury and banking regulators have implemented, and likely will continue to implement, various other programs under this legislation to address capital and liquidity issues in the banking system, including the Troubled Asset Relief Program, or TARP, the Capital Purchase Program, or CPP, President Obama s Financial Stability Plan announced in February 2009, the ARRA and the FDIC s Temporary Liquidity Guaranty Program, or TLGP. There can be no assurance as to the actual impact that any of the recent, or future, legislative and regulatory initiatives will have on the financial markets and the overall economy. Any failure of these initiatives to help stabilize or improve the financial markets and the economy, and a continuation or worsening of current financial market and economic conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

Table of Contents

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. The volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

Additional requirements under our regulatory framework, especially those imposed under ARRA, EESA or other legislation intended to strengthen the U.S. financial system, could adversely affect us.

Recent government efforts to strengthen the U.S. financial system, including the implementation of ARRA, EESA, the TLGP and special assessments imposed by the FDIC, subject participants to additional regulatory fees and requirements, including corporate governance requirements, executive compensation restrictions, restrictions on declaring or paying dividends, restrictions on share repurchases, limits on executive compensation tax deductions and prohibitions against golden parachute payments. These requirements, and any other requirements that may be subsequently imposed, may have a material and adverse affect on our business, financial condition, and results of operations.

Risks Related to Our Business

Our growth presents certain risks, including a possible decline in credit quality or capital adequacy.

The asset growth experienced by National Mercantile and FCB in the years prior to the mergers and by First California after the mergers presents certain risks. While we believe we have maintained good credit quality notwithstanding such growth, rapid growth is frequently associated with a decline in credit quality. Accordingly, continued asset growth could lead to a decline in credit quality in the future. In addition, continued asset growth could cause a decline in capital adequacy for regulatory purposes, which could in turn cause us to have to raise additional capital in the future to maintain or regain well capitalized status as defined under applicable banking regulations.

Our performance and growth are dependent on maintaining a high quality of service for our customers, and will be impaired by a decline in our quality of service.

Our growth will be dependent on maintaining a high quality of service for customers of First California. As a result of the mergers and the corresponding growth, it may become increasingly difficult to maintain high service quality for our customers. This could cause a decline in our performance and growth with respect to net income, deposits, assets and other benchmarks.

The fair value of our investment securities can fluctuate due to market conditions out of our control.

Our investment securities portfolio is comprised mainly of U.S. government agency mortgage-backed securities, U.S. government agency and private-label collateralized mortgage obligations and municipal securities. At September 30, 2009, gross unrealized losses on our investment portfolio were $12.1 million. The majority of unrealized losses at September 30, 2009 were related to a type of mortgage-backed security also known as private-label collateralized mortgage obligations. As of September 30, 2009, the fair value of these securities were $36.8 million, representing approximately 12% of our securities portfolio. We also own one pooled trust preferred security, rated triple-A at purchase, with an amortized cost basis of $4.9 million and an unrealized loss of $2.6 million at September 30, 2009. This unrealized loss is primarily caused by a severe disruption in the market for these securities.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include but are not limited to

Table of Contents

rating agency downgrades of the securities, defaults by the issuer or with respect to the underlying securities, changes in market interest rates and continued instability in the credit markets. Any of these mentioned factors could cause an other-than-temporary impairment in future periods and result in a realized loss.

If borrowers and guarantors fail to perform as required by the terms of their loans, we will sustain losses.

A significant source of risk for First California arises from the possibility that losses will be sustained if our borrowers and guarantors fail to perform in accordance with the terms of their loans and guaranties. This risk increases when the economy is weak. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, that we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

Our allowance for loan losses may not be adequate to cover actual losses.

In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for probable loan and lease losses. Our allowance for loan losses may not be adequate to cover actual loan and lease losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for loan losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal and state regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that our allowance for loan losses is adequate to cover probable losses, it is possible that we will further increase the allowance for loan losses or that regulators will require increases. Either of these occurrences could materially and negatively affect our earnings.

The banking business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest margin is affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We may not be able to minimize our interest rate risk. In addition, while an increase in the general level of interest rates may increase our net interest margin and loan yield, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest margin, asset quality, loan origination volume and overall profitability.

We face strong competition from financial services companies and other companies that offer banking services which could negatively affect our business.

We conduct our banking operations primarily in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties, California. Increased competition in these markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service areas. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalizations and financial intermediaries not subject to bank regulatory restrictions have larger lending limits than we have and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios and our results of operations and financial condition may otherwise be adversely affected.

We may incur impairments to goodwill.

We assess goodwill for impairment on an annual basis or at interim periods if an event occurs or circumstances change which may indicate a change in the implied fair value of the goodwill. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. It is our practice to perform the annual impairment assessment at the end of our fiscal year and to use independent data to assist us in determining the fair value of the Company and in determining appropriate market factors to be used in the fair value calculations. At December 31, 2008 the annual assessment resulted in the conclusion that goodwill was not impaired. At September 30, 2009, because of our net loss for the first nine months of 2009, an interim assessment was performed and resulted in the conclusion that goodwill was not impaired. A significant decline in our stock price, a significant decline in our expected future cash flows, a significant adverse change in the business climate or slower growth rates could result in impairment of our goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate non-cash charge, which could have an adverse effect on our operating results and financial position.

Changes in economic conditions, in particular an economic slowdown in Southern California, could materially and negatively affect our business.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in economic conditions, whether caused by national or local concerns, in particular an economic slowdown in Southern California, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans. The State of California and certain local governments in our market area continue to face fiscal challenges upon which the long-term impact on the State s or the local economy cannot be predicted.

A portion of the Company s loan portfolio consists of construction and land development loans in Southern California, which have greater risks than loans secured by completed real properties.

At September 30, 2009, First California had outstanding construction and land development loans in Southern California in the amount of approximately $94.7 million, representing approximately 10% of its loan portfolio. These types of loans generally have greater risks than loans on completed homes, multifamily properties and commercial properties. A construction loan generally does not cover the full amount of the construction costs, so the borrower must have adequate funds to pay for the balance of the project. Price increases, delays and unanticipated difficulties can materially increase these costs. Further, even if completed, there is no assurance that the borrower will be able to sell the project on a timely or profitable basis, as these are closely related to real estate market conditions, which can fluctuate substantially between the start and completion of the project. If the borrower defaults prior to completion of the project, the value of the project will likely be less than the outstanding loan, and we could be required to complete construction with our own funds to minimize losses on the project.

Further disruptions in the real estate market could materially and negatively affect our business.

There has been a slow-down in the real estate market due to negative economic trends and credit market disruption, the impacts of which are not yet completely known or quantified. At September 30, 2009 approximately 73% of our loans are secured by real estate. Any further downturn in the real estate market could materially and adversely affect our business because a significant portion of our loans is secured by real estate. Our ability to recover on defaulted loans by selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. An increase in losses on defaulted loans may have a material impact on our financial condition and results of operations, by reducing income, increasing expenses, and leaving less cash available for lending and other activities.

Substantially all real property collateral for the Company is located in Southern California. Real estate values have declined recently, particularly in California. If real estate sales and appreciation continue to weaken, especially in Southern California, the collateral for our loans would provide less security. Real estate values could be affected by, among other things, an economic recession or slowdown, an increase in interest rates, earthquakes, brush fires, flooding and other natural disasters particular to California.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Given the current disruption in the financial markets and potential new regulatory initiatives, including the Obama administration s recent financial regulatory reform proposal, new regulations and laws that may affect us are increasingly likely. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. These proposed laws, rules and regulations, or any other laws, rules or regulations, may be adopted in the future, which could (1) make compliance much more difficult or expensive, (2) restrict our ability to originate, broker or sell loans or accept certain deposits, (3) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (4) otherwise adversely affect our business or prospects for business. In addition, it is likely that we will be required to pay significantly higher FDIC premiums in the future because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. Moreover, the FDIC recently decided to require depository institutions to prepay deposit insurance premiums. On November 12, 2009, the FDIC issued a final rule requiring all insured depository institutions to prepay on December 30, 2009 their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. Under the rule, the assessment rate for the fourth quarter of 2009 and for 2010 will be based on each institution s total base assessment rate for the third quarter of 2009, and the assessment rate for 2011 and 2012 will be equal to the third quarter assessment rate plus an additional 3 basis points. In addition, each institution s base assessment rate for each period will be calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. Based on our FDIC quarterly invoice for September 30, 2009, we estimate that our prepayment amount should not exceed $10 million. Increases in our FDIC premium add to our cost of operations and, accordingly, adversely affect our results of operations.

Moreover, banking regulators have significant discretion and authority to prevent or remedy unsafe or unsound practices or violations of laws or regulations by financial institutions and holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory authority may have a negative impact on our financial condition and results of operations.

Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Our internal operations are subject to a number of risks.

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud, security breaches of our computer systems and catastrophic failures resulting from terrorist acts or natural disasters. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that is not prevented or detected by our internal controls and uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

We face reputation and business risks due to our interactions with business partners, service providers and other third parties.

We rely on third parties in a variety of ways, including to provide key components of our business infrastructure or to further our business objectives. These third parties may provide services to us and our clients or serve as partners in business activities. We rely on these third parties to fulfill their obligations to us, to accurately inform us of relevant information and to conduct their activities professionally and in a manner that reflects positively on us. Any failure of our business partners, service providers or other third parties to meet their commitments to us or to perform in accordance with our expectations could harm our business and operations, financial performance, strategic growth or reputation.

We face risks in connection with our strategic undertakings.

If appropriate opportunities present themselves, we may engage in strategic activities, which may include acquisitions, investments, asset purchases or other business growth initiatives or undertakings. There can be no assurance that we will successfully identify appropriate opportunities, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful.

In order to finance future strategic undertakings, we might obtain additional equity or debt financing. Such financing might not be available on terms favorable to us, or at all. If obtained, equity financing could be dilutive and the incurrence of debt and contingent liabilities could have a material adverse affect on our business, results of operations and financial condition.

Our ability to execute strategic activities successfully will depend on a variety of factors. These factors likely will vary based on the nature of the activity but may include our success in integrating the operations, services, products, personnel and systems of an acquired company into our business, operating effectively with any partner with whom we elect to do business, retaining key employees, achieving anticipated synergies, meeting management s expectations and otherwise realizing the undertaking s anticipated benefits. Our ability to address these matters successfully cannot be assured. In addition, our strategic efforts may divert resources or management s attention from ongoing business operations and may subject us to additional regulatory scrutiny. If we do not successfully execute a strategic undertaking, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

We depend heavily on the services of our President and Chief Executive Officer, C. G. Kum, our Executive Vice President and Chief Financial Officer, Romolo C. Santarosa and a number of other key management personnel. The loss of any of their services or that of other key personnel could materially and adversely affect our future results of operations and financial condition. Our success also depends in part on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and we may not be successful in attracting or retaining the personnel we require.

The imposition of certain restrictions on our executive compensation as a result of our decision to participate in the CPP may have material adverse effects on our business and results of operations.

As a result of our election to participate in the CPP, we must adopt the U.S. Treasury s standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds equity issued under the CPP. These standards would generally apply to our Chief Executive Officer, our Chief Financial Officer and the three next most highly compensated executive officers, referred to collectively as the senior executive officers. The standards include: (1) ensuring that incentive compensation for senior executive officers does not encourage unnecessary and excessive risks that threaten the value of our Company and the Bank, (2) requiring a clawback of any bonus or incentive compensation paid to a senior executive officer based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, (3) prohibiting golden parachute payments to a senior executive officer, and (4) our agreement not to deduct for tax purposes compensation paid to a senior executive officer in excess of $500,000. In particular, the change to the deductibility limit on executive compensation may increase our income tax expense in future periods if compensation to a senior executive officer exceeds $500,000. In conjunction with its purchase of the Series B Preferred Stock, the U.S. Treasury acquired a warrant to purchase 599,042 shares of our common stock. A portion of the warrant is immediately exercisable and has a term of 10 years. Therefore, we could potentially be subject to the executive compensation and corporate governance restrictions for a ten-year period as a result of our participation in the CPP.

If we are unable to redeem the Series B Preferred Stock within five years, the cost of this capital to us will increase substantially.

If we are unable to redeem the Series B Preferred Stock prior to February 15, 2014, the cost of this capital to us will increase substantially on that date, from 5.0% per annum (approximately $1.25 million annually) to 9.0% per annum (approximately $2.25 million annually). Depending on our financial condition at the time, this increase in the annual dividend rate on the Series B Preferred Stock could have a material negative effect on our liquidity and our earnings available to common shareholders.

Table of Contents

Risks Related to Our Common Stock

Certain preferences and rights of preferred stockholders of First California may negatively affect the rights of holders of First California common stock.

First California s certificate of incorporation authorizes its Board of Directors to issue up to 2,500,000 shares of preferred stock and to determine the rights, preferences, powers and restrictions granted or imposed upon any series of preferred stock without prior stockholder approval. The preferred stock that may be authorized could have preference over holders of First California common stock with respect to dividends and other distributions upon the liquidation or dissolution of First California. If First California s Board of Directors authorizes the issuance of additional series of preferred shares having a voting preference over common stock, such issuances may inhibit or delay the approval of measures supported by holders of common stock that require stockholder approval and consequently may make it difficult and expensive for a third party to pursue a tender offer, change in control or takeover attempt that is opposed by our management and Board of Directors. Accordingly, such issuance could substantially impede the ability of public stockholders to benefit from a change in control or change of our management and Board of Directors and, as a result, may adversely affect the market price of our common stock and the stockholders ability to realize any potential change of control premium.

Currently, in the event of a voluntary or involuntary liquidation or dissolution, holders of our Series A Preferred Stock are entitled to receive a liquidation preference of $1,000 plus an amount equal to 8.5% per annum of the $1,000, which is deemed to have commenced accrual on December 10, 2001. Also, holders of our Series B Preferred Stock are entitled to receive a liquidation preference of $1,000 plus an accrued amount equal to 5.0% per annum of the $1,000, if any. These amounts are payable out of the assets of First California before any distribution to holders of common stock. If the number of preferred shares having a similar liquidation preference increases, the chance that holders of common stock may receive a smaller distribution upon liquidation or dissolution may be higher.

Certain restrictions will affect our ability to declare or pay dividends and repurchase our shares as a result of our decision to participate in the CPP.

As a result of our participation in the CPP, our ability to declare or pay dividends on any of our common stock has been limited. Specifically, we are not able to declare dividend payments on our common, junior preferred or pari passu preferred stock if we are in arrears on the dividends on our Series B Preferred Stock. Further, we are not permitted to pay dividends on our common stock without the U.S. Treasury s approval until the third anniversary of the investment unless the Series B Preferred Stock has been redeemed or transferred. In addition, our ability to repurchase our shares has been restricted. The U.S. Treasury s consent generally will be required for us to make any stock repurchases until the third anniversary of the investment by the U.S. Treasury unless the Series B Preferred Stock has been redeemed or transferred. Further, common, junior preferred or pari passu preferred stock may not be repurchased if we are in arrears on the Series B Preferred Stock dividends to the U.S. Treasury.

Our ability to pay dividends to holders of our common stock may be restricted by Delaware law and under the terms of indentures governing the trust preferred securities we have issued.

Our ability to pay dividends to our stockholders is restricted in specified circumstances under indentures governing the trust preferred securities we have issued, and we may issue additional securities with similar restrictions in the future. In addition, our ability to pay any dividends to our stockholders is subject to the restrictions set forth under Delaware law. We cannot assure you that we will meet the criteria specified under these agreements or under Delaware law in the future, in which case we may not be able to pay dividends on our common stock even if we were to choose to do so.

Table of Contents

We do not expect to pay dividends on our common stock in the foreseeable future.

We have never paid a cash dividend on our common stock and we do not expect to pay a cash dividend in the foreseeable future. We presently intend to retain earnings and increase capital in furtherance of our overall business objectives. We will periodically review our dividend policy in view of the operating performance of the company, and may declare dividends in the future if such payments are deemed appropriate.

We are a holding company and depend on our banking subsidiary for dividends, distributions and other payments.

We are a holding company that conducts substantially all our operations through our banking subsidiary, First California Bank. As a result, our ability to make dividend payments on our common stock depends upon the ability of First California Bank to make payments, distributions and loans to us. The ability of First California Bank to make payments, distributions and loans to us is limited by, among other things, its earnings, its obligation to maintain sufficient capital, and by applicable regulatory restrictions. For example, if, in the opinion of an applicable regulatory authority, First California Bank is engaged in or is about to engage in an unsafe or unsound practice, which could include the payment of dividends under certain circumstances, such authority may take actions requiring that First California Bank refrain from the practice. Additionally, under applicable California law, First California Bank generally cannot make any distribution (including a cash dividend) to its stockholder, us, in an amount which exceeds the lesser of: (1) the retained earnings of First California Bank and (2) the net income of First California Bank for its last three fiscal years, less the amount of any distributions made by First California Bank to its stockholder during such period. If First California Bank is not able to make payments, distributions and loans to us, we will be unable to pay dividends on our common stock.

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell the common stock when you want to or at prices you find attractive.

We cannot predict how our common stock will trade in the future. The market value of our common stock will likely continue to fluctuate in response to a number of factors including the following, most of which are beyond our control, as well as the other factors described in this Risk Factors section of this prospectus beginning on page 5:

- actual or anticipated quarterly fluctuations in our operating and financial results;
- developments related to investigations, proceedings or litigation that involve us;
- changes in financial estimates and recommendations by financial analysts;
- dispositions, acquisitions and financings;
- actions of our current stockholders, including sales of our common stock by existing stockholders and our directors and executive officers;
- fluctuations in the stock price and operating results of our competitors;
- regulatory developments; and
- developments related to the financial services industry.

Only a limited trading market exists for our common stock, which could lead to significant price volatility.

Our common stock was designated for listing on the NASDAQ Global Market in March 2007 under the trading symbol FCAL and trading volumes since that time have been modest. The limited trading market for

Table of Contents

our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that stockholders will be able to sell their shares.

A holder with as little as a 5% interest in First California could, under certain circumstances, be subject to regulation as a bank holding company.

Any entity (including a group composed of natural persons) owning 25% or more of the outstanding First California common stock, or 5% or more if such holder otherwise exercises a controlling influence over First California, may be subject to regulation as a bank holding company in accordance with the Bank Holding Company Act of 1956, as amended, or the BHCA. In addition, (1) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the Federal Reserve Board under the BHCA to acquire or retain 5% or more of the outstanding First California common stock and (2) any person other than a bank holding company may be required to obtain the approval of the Federal Reserve Board under the Change in Bank Control Act to acquire or retain 10% or more of the outstanding First California common stock. Becoming a bank holding company imposes certain statutory and regulatory restrictions and burdens, and might require the holder to divest all or a portion of the holder s investment in First California. In addition, because a bank holding company is required to provide managerial and financial strength for its bank subsidiary, such a holder may be required to divest investments that may be deemed incompatible with bank holding company status, such as a material investment in a company unrelated to banking.

Concentrated ownership of our common stock creates risks for our stockholders, including a risk of sudden changes in our share price.

As of December 4, 2009, First California s directors, executive officers and other affiliates of First California owned approximately 50% of First California s outstanding common stock (not including vested option shares). As a result, if all of these stockholders were to take a common position, they would be able to significantly affect the election of directors, with respect to which stockholders are authorized to use cumulative voting, as well as the outcome of most corporate actions requiring stockholder approval, such as the approval of mergers or other business combinations. Such concentration may also have the effect of delaying or preventing a change in control of First California. In some situations, the interests of First California s directors and executive officers may be different from other stockholders.

Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large stockholders of a significant portion of that stockholder s holdings could have a material adverse effect on the market price of our common stock. Furthermore, a group of our large stockholders can demand that we register their shares under certain circumstances. Any such increase in the number of our publicly registered shares may cause the market price of our common stock to decline or fluctuate significantly.

There may be future sales of additional common stock or preferred stock or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional common stock or preferred stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock or preferred stock or any substantially similar securities. The market value of our common stock could decline as a result of sales by us of a large number of shares of common stock or preferred stock or similar securities in the market or the perception that such sales could occur.

Table of Contents

USE OF PROCEEDS

We expect to receive net proceeds from this offering of approximately $ (or approximately $ if the underwriter exercises its over-allotment option in full), after deduction of underwriting discounts and commissions and estimated expenses payable by us.

We intend to use the net proceeds of this offering for general corporate purposes, including funding working capital requirements, supporting growth of First California s banking business from internal growth and from possible acquisitions, and regulatory capital needs related to any such growth and acquisitions. We also may contribute some portion of the net proceeds to the capital of the Bank, which would use such amount for similar general corporate purposes.

Table of Contents

CAPITALIZATION

The following table sets forth our actual cash and due from banks, capitalization, per common share book values, and regulatory capital ratios, each as of September 30, 2009 and as adjusted to give effect to the issuance of the common stock offered hereby and the use of proceeds with respect thereto, as described in the Use of Proceeds section of this prospectus.

	As of September 30, 2009 Actual	As Adjusted(1)
	(Dollars in thousands, except per share data)	
Cash and due from banks	$ 42,753	$
Junior subordinated debentures	$ 26,740	$
Shareholders equity		
Preferred stock, authorized 2,500,000 shares, $0.01 par value		
Series A issued and outstanding 1,000 shares, actual and as adjusted	1,000	
Series B issued and outstanding 25,000 shares, actual and as adjusted	23,056	
Common stock, authorized 25,000,000 shares, $0.01 par value; issued 11,972,034 shares, actual; issued 19,472,034 shares, as adjusted; outstanding 11,625,633 shares, actual; outstanding 19,125,633 shares, as adjusted	118	
Additional paid-in capital	136,389	
Treasury stock, 346,401 shares at cost, actual and as adjusted	(3,061)	
Retained earnings	8,600	
Accumulated other comprehensive income (loss)	(5,044)	
Total shareholders equity	161,058	
Total capitalization(2)	$ 187,798	$
Per Common Share		
Common book value per share	$ 11.78	
Tangible common book value per share	5.53	
Regulatory Capital Ratios		
For the Company:		
Total capital to risk weighted assets	12.47%	
Tier 1 capital to risk weighted assets	11.34%	
Tier 1 capital to average assets	8.81%	
For the Bank:		
Total capital to risk weighted assets	11.62%	
Tier 1 capital to risk weighted assets	10.48%	
Tier 1 capital to average assets	8.10%	

(1) Assumes that 7,500,000 shares of our common stock are sold in this offering at $ per share and that the net proceeds thereof are approximately $ million after deducting underwriting discounts and commissions and our estimated expenses. If the underwriter s over-allotment option is exercised in full, net proceeds will increase to approximately $ million.

(2) Includes shareholders equity and junior subordinated debentures.

Table of Contents

PRICE RANGE OF COMMON STOCK

The common stock of First California began trading on the NASDAQ Global Market under the symbol FCAL on March 13, 2007. Prior to that time, the common stock of National Mercantile, our predecessor, traded on the NASDAQ Capital Market under the symbol MBLA .

The information in the following table indicates the high and low sales prices for National Mercantile s common stock from January 1, 2007 to March 12, 2007 and for our common stock from March 13, 2007 to December 4, 2009, as reported by NASDAQ. Because of the limited market for National Mercantile s common stock before March 13, 2007 and our common stock after that time, these prices may not be indicative of the fair market value of the common stock. The information does not include transactions for which no public records are available. The trading prices in such transactions may be higher or lower than the prices reported below.

As of December 4, 2009, we had approximately 11,627,008 shares of common stock outstanding, held of record by approximately 479 stockholders. The last reported sales price of our common stock on the NASDAQ Global Market on December 4, 2009 was $3.58 per share.

Quarter Ended	High	Low
2009		
December 31 (through December 4)	$ 5.05	$ 3.26
September 30	$ 6.48	$ 4.32
June 30	$ 8.45	$ 3.89
March 31	$ 7.75	$ 3.62
2008		
December 31	$ 8.60	$ 4.71
September 30	$ 9.00	$ 5.17
June 30	$ 9.15	$ 5.50
March 31	$ 9.25	$ 7.11
2007		
December 31	$ 10.50	$ 6.90
September 30	$ 12.30	$ 9.25
June 30	$ 13.95	$ 11.32
March 31	$ 13.96	$ 12.60

DIVIDEND POLICY

From our inception and until the completion of the mergers in March 2007, we were a business combination shell company, conducting no operations or owning or leasing any real estate or other property. Accordingly, we did not pay any dividends to our sole stockholder, National Mercantile, prior to the mergers, nor have we paid any dividends to our common stockholders since the completion of the mergers. We do not currently expect to pay a cash dividend to our common stockholders in the foreseeable future. We presently intend to retain earnings and increase capital in furtherance of our overall business objectives. We will periodically review our dividend policy in view of our operating performance, and may declare dividends in the future if such payments are deemed appropriate.

In addition, we cannot declare or pay a dividend on our common stock without the consent of the U.S. Treasury until the third anniversary of the date of the CPP investment, or December 19, 2011, unless prior to such third anniversary the Series B Preferred Stock is redeemed in whole or the U.S. Treasury has transferred all of the Series B Preferred Stock to third parties. We also may not pay dividends on our capital stock if we are in default or have elected to defer payments of interest under our junior subordinated debentures.

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion is designed to provide a better understanding of significant trends related to the consolidated results of operations and financial condition of First California and its wholly owned subsidiaries. When we say we, our or us , we mean First California and its consolidated subsidiaries after the mergers. This discussion and information is derived from our audited consolidated financial statements and related notes for the two years ended December 31, 2008 and 2007 and our unaudited consolidated financial statements and related notes for the periods ended September 30, 2009 and 2008. You should read this discussion in conjunction with those consolidated financial statements appearing elsewhere in this prospectus.

We were a wholly owned subsidiary of National Mercantile formed to facilitate the reincorporation merger with National Mercantile and the merger with FCB completed on March 12, 2007. Accordingly, our historical balance sheet and results of operations before the mergers are the same historical information of National Mercantile. We accounted for the FCB merger using the purchase method of accounting; accordingly, our balance sheet includes the estimates of the fair value of the assets acquired and liabilities assumed from FCB. Our results of operations for the twelve months ended December 31, 2007 include the operations of FCB from the date of acquisition.

The Company is a bank holding company which serves the comprehensive banking needs of businesses and consumers in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties through our wholly owned subsidiary, First California Bank. The Bank is a state-chartered commercial bank which provides traditional business and consumer banking products ranging from construction finance, entertainment finance and commercial real estate lending via 17 full-service branch locations. The Company also has two unconsolidated statutory business trust subsidiaries, First California Capital Trust I and FCB Statutory Trust I, which raised capital through the issuance of trust preferred securities.

At September 30, 2009, we had total assets of $1.5 billion, gross loans of $940.9 million, deposits of $1.1 billion and shareholders equity of $161.1 million. At December 31, 2008, we had total assets of $1.2 billion, gross loans of $788.4 million, deposits of $817.6 million and shareholders equity of $158.9 million.

For the third quarter of 2009, we had a net loss of $0.1 million, compared with net income of $1.8 million for the third quarter of 2008. Our net loss for the first nine months of 2009 was $1.8 million, compared to net income for the first nine months of 2008 of $5.2 million.

After a dividend payment of $312,500 on our Series B preferred shares, we incurred a loss per diluted common share of $0.04 for the 2009 third quarter. Our 2008 third quarter net income on a diluted per common share basis was $0.15. Our net loss for the first nine months of 2009, after Series B preferred share dividends of $819,000, was $0.23 per diluted common share. Our net income for the first nine months of 2008 on a diluted per common share basis was $0.45.

Critical Accounting Policies

We based our discussion and analysis of our consolidated results of operations and financial condition on our unaudited consolidated interim financial statements and our audited consolidated financial statements which have been prepared in accordance with generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these consolidated financial statements. We believe these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. The following are our critical accounting policies and estimates.

Table of Contents

Allowance for loan losses

We establish the allowance for loan losses through a provision charged to expense. We charge-off loan losses against the allowance when we believe that the collectability of the loan is unlikely. The allowance is an amount that we believe will be adequate to absorb probable losses on existing loans that may become uncollectible, based on evaluations of the collectability of loans and prior loan loss experience. The evaluation includes an assessment of the following factors: any external loan review and any regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquency and nonaccruals, trends in the portfolio volume, effects of any changes in the lending policies and procedures, changes in lending personnel, present economic conditions at the local, state and national level, the amount of undisbursed off-balance sheet commitments, and a migration analysis of historical losses and recoveries for the prior eight quarters. Various regulatory agencies, as a regular part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination. The allowance for loan losses was $12.1 million at September 30, 2009 and was $8.0 million at December 31, 2008.

Deferred income taxes

We recognize deferred tax assets subject to our judgment that realization of the assets are more-likely-than-not. We establish a valuation allowance when we determine that realization of income tax benefits may not occur in future years. There were net deferred tax assets of $0.5 million at September 30, 2009 and net deferred tax assets of $2.6 million at December 31, 2008. There was no valuation allowance at either period end.

Derivative instruments and hedging

For derivative instruments designated in cash flow hedging relationships, we assess the effectiveness of the instruments in off-setting changes in the overall cash flows of designated hedged transactions on a quarterly basis. Beginning in the second quarter of 2008, we no longer had any derivative instruments designated in cash flow hedging relationships on our consolidated balance sheet. For the first nine months of 2008, we also had an interest rate floor for which we did not designate a hedging relationship. Accordingly, we recognized all changes in fair value of the interest rate floor directly in current period earnings. We owned no derivative instruments in 2009.

Assessments of impairment

Goodwill arises from business combinations and represents the value attributable to the unidentifiable intangible elements in our acquired businesses. Goodwill is initially recorded at fair value and is subsequently evaluated at least annually for impairment in accordance with the Financial Accounting Standards Board, or FASB, Accounting Standard Codification Update Related to Business Combinations. We perform this annual test as of December 31 of each year. Evaluations are also performed on a more frequent basis if events or circumstances indicate impairment could have taken place. Such events could include, among others, a significant adverse change in the business climate, an adverse action by a regulator, a significant decrease in the market capitalization of the Company, an unanticipated change in the competitive environment, and a decision to change the operations or dispose of a significant business unit or product line.

The first step in this evaluation process is to determine if a potential impairment exists and, if the results of this exercise demonstrate potential impairment we next embark on a second step to determine the amount of impairment loss, if any. The computations required in these two exercises requires us to make a number of estimates and assumptions. In completing the first step, we determine the fair value of the Company. In determining the fair value, we calculate the value using a combination of three separate methods: the trading multiple of comparable publicly traded financial institutions; the acquisition premium of comparable acquisitions of financial institutions; and the discounted present value of our estimates of future cash flows. Critical assumptions that are used as part of these calculations include:

- selection of comparable publicly traded companies, based upon location, size and business composition;

- selection of market comparable acquisition transactions, based on location, size, business composition, and date of the transaction;

- the discount rate applied to future earnings, based upon an estimate of the cost of capital;

- the potential future earnings of the Company; and

- the relative weight given to the valuations derived by the three methods described.

If the first step indicates a potential impairment, we next determine or estimate the implied fair value of the goodwill. This process estimates the fair value of the Company s individual assets and liabilities in the same manner as if a purchase of the Company were taking place. To do this, we must determine the fair value of the assets, liabilities and identifiable intangible assets of the Company based upon the best available information. We estimate the fair market value of all of the tangible assets, identifiable intangible assets and liabilities of the Company in accordance with the FASB Accounting Guidance Related to Fair Value Measurements. Loans, deposits with maturities, and debt are valued using assumptions regarding future cash flows, appropriate discount rates and other estimates, such as credit and market liquidity assumptions, to comply with the FASB Accounting Guidance Related to Fair Value Measurements. Deposits with no maturities are valued at book value. Owned properties are appraised, while for furniture, fixtures and equipment it is assumed book value approximates fair market value. Identifiable intangible assets such as core deposit intangibles and trade name intangibles are also identified and valued. If the implied fair value of goodwill calculated in this exercise is less than the carrying amount of goodwill, an impairment is indicated and the carrying value of goodwill is written down to its estimated fair value.

Effective December 31, 2008, we performed our annual goodwill impairment evaluation. Upon completion of the first step of the evaluation process, we concluded that potential impairment of goodwill existed. The second step was completed with the assistance of an independent valuation firm and our internal valuation resources and resulted in our conclusion that goodwill was not impaired at December 31, 2008. At September 30, 2009, because of the net loss for the nine months ended September 30, 2009, we performed an interim assessment and concluded that goodwill was not impaired.

We also review our securities on an ongoing basis for the presence of other-than-temporary impairment, with formal reviews performed quarterly. Other-than-temporary losses on an individual security is recognized as a realized loss through earnings when it is probable that we will not collect all of the contractual cash flows of that security or we are unable to hold the security to recovery.

Our other-than-temporary impairment evaluation process conforms to the FASB Accounting Standards Codification Guidance Related to the Consideration of Impairment Related to Certain Debt and Equity Securities. These rules require us to take into consideration current market conditions, fair value in relationship to cost, extent and nature of change in fair value, issuer rating changes and trends, current analysts evaluations, all available information relevant to the collectability of debt securities, our ability and intent to hold the security until a recovery of fair value, which may be maturity, and other factors when evaluating for the existence of other-than-temporary impairment in our securities. At December 31, 2008 we evaluated the unrealized loss in our securities portfolio and concluded that there was no other-than-temporary impairment. Based upon the results of our other-than-temporary impairment analysis as of June 30, 2009, we recorded an other-than-temporary impairment loss of $565,000 on one security. The Company did not record any additional other-than-temporary impairment loss in the third quarter of 2009. We will continue to evaluate our securities portfolio for other-than-temporary impairment at each reporting date and we can provide no assurance there will not be another other-than-temporary loss in future periods.

Table of Contents

Recent Developments

FDIC-assisted 1st Centennial Bank Transaction

On January 23, 2009, the Bank assumed the insured, non-brokered deposits of 1st Centennial Bank, totaling approximately $270 million, from the FDIC. Under the terms of the purchase and assumption agreement with the FDIC, the Bank also purchased from the FDIC approximately $178 million in cash and cash equivalents, $89 million in securities and $101 million in loans related to 1st Centennial Bank. The assumption of deposits and purchase of assets from the FDIC was an all-cash transaction with an aggregate transaction value of $48.8 million. The Bank recorded $10.6 million in goodwill in connection with this transaction. We have since fully integrated all six of the former 1st Centennial Bank branches into the Bank s full-service branch network.

Emergency Economic Stabilization Act of 2008 (Troubled Asset Relief Program Capital Purchase Program)

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the EESA became law. Through its authority under the EESA, the U.S. Treasury announced in October 2008 the CPP, a program designed to bolster healthy institutions, like us, by making $250 billion of capital available to U.S. financial institutions in the form of preferred stock.

We participated in the CPP in December 2008 so that we could continue to lend and support our current and prospective clients, especially during this unstable economic environment. Since our participation in the CPP, we were able to increase the average balance of our commercial and consumer loans by $194.6 million, or 30 percent, from December 31, 2008 to September 30, 2009. Under the terms of our participation, we received $25 million in exchange for the issuance of preferred stock and a warrant to purchase common stock, and became subject to various requirements, including certain restrictions on paying dividends on our common stock and repurchasing our equity securities, unless the U.S. Treasury has consented. Additionally, in order to participate in the CPP, we were required to adopt certain standards for executive compensation and corporate governance. These standards generally apply to the Chief Executive Officer, Chief Financial Officer and the three next most highly compensated senior executive officers, and include (1) ensuring that incentive compensation of senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required claw-back of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate; (3) limiting golden parachute payments to certain senior executives; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. To date, we have complied with these requirements, but the Secretary of the Treasury is empowered under EESA to adopt other standards, with which we would be required to comply. Additionally, the bank regulatory agencies, U.S. Treasury and the Office of Special Inspector General, also created by the EESA, have issued guidance and requests to the financial institutions that participated in the CPP to document their plans and use of CPP funds and their plans for addressing the executive compensation requirements associated with the CPP. We will respond to such requests accordingly.

In February 2009, the U.S. Congress enacted the ARRA. Among other provisions, the ARRA amended the EESA and contains requirements imposed on financial institutions like us which have already participated in the CPP. These requirements expand the initial executive compensation restrictions under the CPP to include, among other things, application of the required claw-back provision to our top 25 most highly compensated employees, prohibition of certain bonuses to our top five most highly compensated employees, expanded limitations on golden parachute payments to our top ten most highly compensated employees, implementation of a company-wide policy regarding excessive and luxury expenditures, and requirement of a shareholder advisory vote on our

Table of Contents

executive compensation.[1] Under the new ARRA requirements, we may redeem early the shares issued to the U.S. Treasury under the CPP without any penalty or requirement to raise new capital, as previously required under the original terms of the CPP. However, until the shares are redeemed and for so long as we continue to participate in the CPP, we will remain subject to these expanded requirements and any other requirements applicable to CPP participants that may be subsequently adopted.

On June 10, 2009, the U.S. Treasury issued an interim final rule implementing and providing guidance on the executive compensation and corporate governance provisions of EESA, as amended by ARRA. The regulations were published in the Federal Register on June 15, 2009 and set forth the following requirements:

- Evaluation of employee compensation plans and potential to encourage excessive risk or manipulation of earnings;
- Compensation committee discussion, evaluation and review of senior executive officer compensation plans and other employee compensation plans to ensure that they do not encourage unnecessary and excessive risk;
- Compensation committee discussion, evaluation and review of employee compensation plans to ensure that they do not encourage manipulation of reported earnings;
- Compensation committee certification and disclosure requirements regarding evaluation of employee compensation plans;
- Claw-back of bonuses based on materially inaccurate financial statements or performance metrics;
- Prohibition on golden parachute payments;
- Limitation on bonus payments, retention awards and incentive compensation;
- Disclosure regarding perquisites and compensation consultants;
- Prohibition on gross-ups;
- Luxury or excessive expenditures policy;
- Shareholder advisory resolution on executive compensation; and
- Annual compliance certification by principal executive officer and principal financial officer.

Additionally, the regulations provided for the establishment of the Office of the Special Master for TARP Executive Compensation with authority to review certain payments and compensation structures.

In general, neither the requirements of EESA, as amended by ARRA, nor the U.S. Treasury s regulations promulgated thereunder apply retroactively prior to June 15, 2009, the date the regulations were published in the Federal Register. The regulations confirm that the bonus payment limitation does not apply to amounts accrued or paid prior to June 15, 2009, and the golden parachute prohibition applies only to payments due to departures on or after June 15, 2009. Many of the requirements apply only during the period during which an obligation arising from financial assistance under the TARP remains outstanding, disregarding unexercised warrants but, for companies that have already received financial assistance, no earlier than June 15, 2009. For companies that become TARP recipients following June 15, 2009, the requirements and restrictions generally become effective when the company receives TARP funds.

The EESA also increased FDIC deposit insurance on most accounts from $100,000 to $250,000. The increase in deposit insurance expires at the end of 2013 and deposit insurance premiums paid by the banking industry were unaffected by this increase. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank s capital level and supervisory

[1] At our Annual Meeting of Stockholders held on May 27, 2009, all matters presented before the meeting were approved by the requisite vote, including a substantial majority of votes cast in favor of our executive compensation, as set forth in our Say on Pay item.

rating. Effective February 2009, the FDIC adopted a rule to uniformly increase 2009 FDIC deposit assessment rates by 7 to 9 cents for every $100 of domestic deposits. The FDIC also assessed a special assessment of 5 cents on each institution s assets minus Tier 1 capital as of June 30, 2009, to restore the deposit insurance fund reserves. Our special assessment amount was $668,000. The FDIC has recently adopted a rule requiring insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009, along with each institution s risk-based deposit insurance assessment for the third quarter of 2009. FDIC insurance premiums are expected to increase significantly in 2009 compared to prior years. Annual FDIC insurance expense was $682,000 in 2008 and $164,000 in 2007. With the 5 basis point special assessment included, we estimate our 2009 FDIC insurance expense will be approximately $3.0 million.

In addition, the FDIC has implemented two temporary programs under the TLGP to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through the end of 2009 and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. The Bank is participating in the transaction account deposit insurance program. Under the deposit insurance program, through December 31, 2009, the FDIC guarantees all noninterest-bearing for the entire amount in the account. Coverage under this program is in addition to and separate from the coverage available under the FDIC s general deposit insurance rules. The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP.

Results of Operations

Three and nine months ended September 30, 2009 and 2008

Our earnings are derived predominantly from net interest income, which is the difference between interest and fees earned on loans, securities and federal funds sold (these asset classes are commonly referred to as interest-earning assets) and the interest paid on deposits, borrowings and debentures (these liability classes are commonly referred to as interest-bearing funds). The net interest margin is net interest income divided by average interest-earning assets.

Our net interest income for the third quarter of 2009 was $11.4 million, up from $10.3 million for the same period a year ago. The net interest margin (tax equivalent) for the third quarter of 2009 was 3.50 percent compared with 4.18 percent for the same quarter last year. Our net interest income for the nine months ended September 30, 2009 increased to $34.0 million from $30.9 million for the nine months ended September 30, 2008. Our net interest margin (tax equivalent) for the first nine months of 2009 was 3.60 percent, compared to 4.17 percent for the same period last year. The increase in our net interest income reflects the increase in our interest-earning assets from the FDIC-assisted 1st Centennial Bank transaction and from the growth in our lending activities. The decrease in our net interest margin reflects the effect of higher levels of lower-yielding Federal funds sold and the decrease in rates earned on interest-earning assets, offset in part by the decrease in the rates paid for our interest-bearing funds.

Table of Contents

The following table presents the distribution of our average assets, liabilities and shareholders equity in combination with the total dollar amounts of interest income from average interest earning assets and the resultant yields, and the dollar amounts of interest expense and average interest bearing liabilities, expressed in both dollars and rates for the three and nine months ended September 30, 2009 and 2008. Loans include loans held-for-sale and loans on non-accrual status.

	Three months ended September 30,					
	2009			2008		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Weighted Average Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Weighted Average Yield/ Rate**
Loans(2)	$ 935,848	$ 13,331	5.65%	$ 778,104	$ 12,674	6.48%
Securities	262,664	2,819	4.49%	213,699	2,870	5.54%
Federal funds sold and deposits with banks	108,165	78	0.29%	850	4	1.87%
Total earning assets	1,306,677	$ 16,228	4.97%	992,653	$ 15,548	6.26%
Non-earning assets	152,404			129,391		
Total average assets	$ 1,459,081			$ 1,122,044		
Interest bearing checking	$ 80,514	$ 65	0.32%	$ 58,911	$ 105	0.71%
Savings and money market	290,894	839	1.14%	183,262	723	1.57%
Certificates of deposit	441,737	2,034	1.83%	316,341	2,132	2.68%
Total interest bearing deposits	813,145	2,938	1.43%	558,514	2,960	2.11%
Borrowings	151,930	1,455	3.80%	195,771	1,801	3.66%
Junior subordinated debentures	26,733	439	6.57%	26,683	439	6.58%
Total borrowed funds	178,663	1,894	4.21%	222,454	2,240	4.01%
Total interest bearing funds	991,808	$ 4,832	1.93%	780,968	$ 5,200	2.65%
Noninterest checking	295,444			192,289		
Other liabilities	11,554			12,266		
Shareholders equity	160,275			136,521		
Total liabilities and shareholders equity	$ 1,459,081			$ 1,122,044		
Net interest income		$ 11,396			$ 10,348	
Net interest margin (tax equivalent)(1)			**3.50%**			**4.18%**

(1) Includes tax equivalent adjustments primarily related to tax-exempt income on securities.

(2) Interest on loans includes loan fees and costs, which totaled $(0.1) million and $0.3 million for the three months ended September 30, 2009 and 2008, respectively, and zero and $0.7 million for the nine months ended September 30, 2009 and 2008, respectively. The average loan balance includes loans held-for-sale and nonaccrual loans where nonaccrual interest is excluded.

Table of Contents

	Nine months ended September 30,					
	2009			2008		
(dollars in thousands)	**Average Balance**	**Interest Income/ Expense**	**Weighted Average Yield/ Rate**	**Average Balance**	**Interest Income/ Expense**	**Weighted Average Yield/ Rate**
Loans(2)	$ 913,256	$ 39,144	5.73%	$ 778,337	$ 39,391	6.76%
Securities	272,706	9,847	5.08%	220,837	8,827	5.50%
Federal funds sold and deposits with banks	90,467	368	0.54%	909	18	2.65%
Total earning assets	1,276,429	$ 49,359	5.21%	1,000,083	$ 48,236	6.48%
Non-earning assets	155,190			126,071		
Total average assets	$ 1,431,619			$ 1,126,154		
Interest bearing checking	$ 77,096	$ 168	0.29%	$ 57,667	$ 342	0.79%
Savings and money market	256,122	2,077	1.08%	200,533	2,928	1.95%
Certificates of deposit	460,044	7,274	2.11%	296,235	7,105	3.20%
Total interest bearing deposits	793,262	9,519	1.60%	554,435	10,375	2.49%
Borrowings	158,466	4,512	3.81%	201,612	5,599	3.71%
Junior subordinated debentures	26,720	1,365	6.81%	26,670	1,316	6.58%
Total borrowed funds	185,186	5,877	4.24%	228,282	6,915	4.05%
Total interest bearing funds	978,448	$ 15,396	2.10%	782,717	$ 17,290	2.95%
Noninterest checking	280,036			192,704		
Other liabilities	12,808			13,528		
Shareholders equity	160,327			137,205		
Total liabilities and shareholders equity	$ 1,431,619			$ 1,126,154		
Net interest income		$ 33,963			$ 30,946	
Net interest margin (tax equivalent)(1)			**3.60%**			**4.17%**

(1) Includes tax equivalent adjustments primarily related to tax-exempt income on securities.

(2) Interest on loans includes loan fees and costs, which totaled $(0.1) million and $0.3 million for the three months ended September 30, 2009 and 2008, respectively, and zero and $0.7 million for the nine months ended September 30, 2009 and 2008, respectively. The average loan balance includes loans held-for-sale and nonaccrual loans where nonaccrual interest is excluded.

Our net interest income changes with the level and mix of average interest-earning assets and average interest-bearing funds. We call the changes between periods in interest-earning assets and interest-bearing funds balance changes. We measure the effect on our net interest income from balance changes by multiplying the change in the average balance between the current period and the prior period by the prior period average rate.

Our net interest income also changes with the average rate earned or paid on interest-earning assets and interest-bearing funds. We call the changes between periods in average rates earned and paid rate changes. We measure the effect on our net interest income from rate changes by multiplying the change in average rates earned or paid between the current period and the prior period by the prior period average balance.

We allocate the change in our net interest income attributable to both balance and rate on a pro rata basis to the change in average balance and the change in average rate.

	Three months ended September 30,		
	2009 to 2008 due to:		
(in thousands)	**Rate**	**Volume**	**Total**
Interest income			
Interest on loans	$ (1,913)	$ 2,570	$ 657
Interest on securities	(709)	658	(51)
Interest on Federal funds sold and deposits with banks	(363)	437	74
Total interest income	(2,985)	3,665	680
Interest expense			
Interest on deposits	1,372	(1,349)	23
Interest on borrowings	(58)	403	345
Interest on junior subordinated debentures	1	(1)	
Total interest expense	1,315	(947)	368
Net interest income	$ (1,670)	$ 2,718	$ 1,048

	Nine months ended September 30,		
	2009 to 2008 due to:		
(in thousands)	**Rate**	**Volume**	**Total**
Interest income			
Interest on loans	$ (7,075)	$ 6,828	$ (247)
Interest on securities	(1,053)	2,073	1,020
Interest on Federal funds sold and deposits with banks	(1,355)	1,705	350
Total interest income	(9,483)	10,606	1,123
Interest expense			
Interest on deposits	5,325	(4,469)	856
Interest on borrowings	(111)	1,198	1,087
Interest on junior subordinated debentures	(46)	(3)	(49)